

MULTIMEDIA



UNIVERSITY

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BMR 3134 – STRATEGIC MARKETING

(All sections / Groups)

17 OCTOBER 2016

9am – 11am

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 5 pages with 5 questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

ANSWER ALL QUESTIONS**GROUPON: HELPING CONSUMERS WITH PURCHASE DECISIONS**

University of Chicago graduate student Andrew Mason was in a rut. "There's so much to do in Chicago," he explains, "but I found myself going to the same movie theaters and restaurants." To help people like him try new places, Mason started a website that offered coupons to large groups. He reasoned that people would try something new if the price was low enough, and that businesses would offer low prices if they knew they could sell a large quantity. The result was Groupon, a company that offers "group coupons" in deal-of-the-day offerings for local or national businesses. Consumers love the concept, buying everything from restaurant certificates, to yoga lessons, to tickets to a museum exhibit. "We think the Internet has the potential to change the way people discover and buy from local businesses," says Mason.

THE COMPANY AND GROUPON CONCEPT

Mason started with a website called ThePoint.org, which was designed to organize campaigns, protests, boycotts, and fund-raising drives for important social issues. ThePoint was not successful but it provided the concept of making offers that are only carried out if enough people commit to participate in them. With that idea Mason launched Groupon in October 2008 with a two-pizzas-for-the-price-of-one offer at the Motel Bar, located in the same building where ThePoint rented space. The concept quickly grew in Chicago and Groupon expanded into other U.S. cities, and then into other countries. Today Groupon is available in 375 American cities and 40 countries, and its subscriber base has grown from 400 in 2008 to 60 million today. According to Forbes magazine, Groupon is the fastest growing company in history.

Part of Groupon's success is the simplicity of its business model—offer subscribers at least one deal in their city each day. The unique aspect of the concept is that a certain number of people need to buy into the offer before the coupon discount is valid. Approximately 95 percent of Groupon offers "tip" or reach the number of buyers required by the merchant. Once the minimum number is met, Groupon and the merchant split the revenue. For example, a yoga studio might offer a \$100 membership for \$50 if 200 people participate in the offer. Once 200 consumers have indicated interest, the deal "tips" and Groupon and the yoga studio each receive 50 percent of the revenue. Everyone wins. Consumers receive an exceptional value, the merchant obtains new customers without any advertising cost, and Groupon generates revenue for creating value in the marketplace.

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Many of the deals have generated extraordinary demand. The Joffrey Ballet, for example, sold 2,338 season subscriptions, doubling its subscriber base in one day! Similarly, consumers purchased 445,000 Groupons offering \$50 worth of merchandise for \$25 at the Gap, and 6,561 tickets to a King Tut exhibit in New York's Times Square for half price at \$18 apiece. The most popular offering so far was a \$25 ticket for an architectural boat tour in Chicago for \$12. Groupon sold 19,822 tickets in eight hours! The company's attention to customer satisfaction ensures success stories like these. "We have a policy called 'The Groupon Promise that any customer can return a Groupon, no questions asked—even if they used it—if they feel like Groupon has let them down,'" explains Mason. Groupon's success has attracted many more merchants than it can accommodate. In fact, only about 12 percent of all merchants that contact Groupon are selected to offer a deal.

In addition to the deal-of-the-day offerings, Groupon has several other services. First, it is testing a concept called Groupon Stores which allows merchants to create their own deals and send them out to their own audience. This allows more merchants to participate on a regular basis. Second, the company has recently introduced a mobile service called Groupon Now. To use the service, consumers log in to the app on their smartphone and select one of two options: "I'm Hungry" or "I'm Bored." The phone then transmits its location to the Groupon servers and displays a list of nearby deals at restaurants or entertainment venues. The Groupon Now offerings represent a combination of Yellow Pages advertising and newspaper coupons for price-conscious consumers.

Groupon's growth is evident in some amazing numbers. The company now spends more than 900 deals each day, occupies six floors of the former Montgomery Ward headquarters in Chicago, and employs more than 5,900 people. In addition, Groupon has created a market of consumer deal hunters and an industry of more than 500 competitive deal services. The competitors include Level Up, Tippr, Bloomspot, Scoutmob, Buy with Me, Yelp, and Open Table. In addition, Google Offers, Facebook Deals, Yahoo! Deals, and Amazon's Living Social are all recently launched deal services.

USING COUPONS TO INFLUENCE CONSUMERS' BUYING BEHAVIOR

"Part of the reason that Groupon has grown as quickly as it has is because we really understand consumer behavior," explains Julie Mossler, public relations and consumer marketing manager at Groupon. Generally, Groupon consumers follow the same purchase decision process common to many consumer purchases. The first stage, problem recognition, may be triggered by an e-mail or an appointment to have lunch with friends. Groupon deal-of-the-day e-mail messages, for example, often present consumers with an opportunity to do something they wouldn't ordinarily do—take sky-diving lessons or subscribe to the ballet. Groupon Now presents real-time offers on smartphone apps in response to an immediate need in a specific location. While the two types of offers

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generate different types of purchases, they both begin the purchase process.

The second stage, information search, may simply be a review of previous experiences with the merchant making the offer, online comparisons with competitors, or discussions with friends on Facebook or Twitter. In fact, the collective buying aspect of Groupon encourages subscribers to share promotions with family and friends to increase the chances of reaching the required number of buyers.

In the alternative evaluation stage many Groupon customers focus on price as the most important evaluative criteria, although other aspects such as quantity or time restrictions may be considered. The Groupon Now offers, for example, may only be valid on specific days or during short windows of time. Piece Brewery & Pizzeria in Chicago used Groupon Now to sell a \$30 coupon for \$20 valid only during its slow periods—11 A.M. to 3 P.M. Tuesday through Thursday.

The fourth stage, the purchase decision, is made online and then confirmed when the deals tip. Bo Hurd, national sales manager at Groupon, believes that the purchase stage is unique for Groupon users. He explains, “the fact that [consumers] have put money on the line... is driving them from the online piece, to the computers... to do something, to try something.” Finally, after the purchase consumers compare their experience with their expectations to determine if they are satisfied or dissatisfied.

Psychological, sociocultural, and situational factors also influence Groupon users' purchase behavior. The recession has increased the importance of personal values such as thriftiness, so deal-prone people who were attracted to websites such as Gilt in fashion and Woot in consumer electronics are also attracted to Groupon. The typical Groupon user is an 18- to 34-year old woman with an average income of about \$70,000. This is significant because this group's affinity to social media enables the use of Groupon, which depends on e-mail and smartphone apps to reach its customers. Specific situations such as planning entertainment activities, finding a close restaurant for lunch, or buying a gift are also common to Groupon users. As Groupon has learned more about its subscribers, it has begun personalizing the deals they see. The company uses variables such as gender, location of residence or office, and buying history to match deals with the customers. This process provides offers that are more likely to be of interest to consumers and allows Groupon to serve more merchants.

GROUPON CHALLENGES

As popular as Groupon has become, it does face three challenges. The first challenge is related to the use of coupons. Some consumers buy the coupons but never use them, eventually leaving them dissatisfied and unlikely to use Groupon again. Some consumers use the coupons but do not become regular customers. Because of the deep discounts used

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to sell the Groupons, most of the deals are not profitable for the merchants, so they are dissatisfied if the Groupon users do not make repeat purchases. David Perlman, owner of the Essex restaurant in New York City, for example, offered deals on Groupon and OpenTable, selling 1,500 and 1,000 coupons, respectively. Now he is comparing the diners each deal brought in to determine which group has generated more repeat customers. Some merchants are also concerned that frequent discounting could discourage customers from ever making purchases without a discount.

Another challenge facing Groupon is managing its growth. The company has expanded into Europe, Latin America, Asia, and Russia by acquiring local daily deal services. For example, in Europe it purchased City Deal, in Russia it purchased Darberry, and in Japan it purchased Qpod. It also acquired sites with customer bases in Hong Kong, Singapore, Taiwan, and the Philippines. As a result, Groupon currently has more subscribers abroad than in the United States, although more deals are still sold in the United States. As Groupon continues to grow, it anticipates that it must develop a comprehensive understanding of the differences in international buying behaviors.

Finally, Groupon faces an extraordinary level of competition. Part of the problem is that the daily deal technology is not very sophisticated and the model is easy to copy. Manufacturers, large retailers, and small businesses are all trying the concept. ConAgra has offered a group coupon deal for its Healthy Choice brand through a Facebook app, Walmart launched its own deals app called Crowd saver, and some businesses use recently developed plug-and-play software that helps build deals into their websites. Mason hopes that Groupon Now is one answer to this challenge because it is much more difficult to replicate. "We have always been thinking about how to solve these fundamental problems of our model. We have known since very early on that some form of real-time deal optimization is where this had to go," he explains.

Groupon's success is the result of a simple and effective business model and an insightful understanding of consumer behavior. In the future, Groupon's strategies will require continued attention to understanding consumers around the globe. Mossler explains: "Groupon has been heralded as the fastest growing company of all time, and the reason for that is because we have solved this unsolvable problem, which is how do you engage with local customers. The model really works anywhere as long as you adapt for local communities."

Source: Kerin, Hartley, & Rudelius, (2013), Marketing, 12th edition, New York, McGraw-Hill.

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QUESTION 1

How has an understanding of consumer behavior helped Groupon grow from 400 subscribers in Chicago in 2008 to 60 million subscribers in 40 countries today?

(25 Marks)

QUESTION 2

(a) What is the Groupon Promise?

(5 Marks)

(b) How does the Groupon Promise affect a consumer's perceived risk and cognitive dissonance?

(10 Marks)

(Total: 15 Marks)

QUESTION 3

Describe the five-stage purchase decision process for a typical Groupon user.

(20 Marks)

QUESTION 4

What are possible psychological and sociological influences on the Groupon consumer purchase decision process?

(13 Marks)

QUESTION 5

(a) What challenges does Groupon face in the future?

(15 Marks)

(b) What actions would you recommend related to each challenge?

(12 Marks)

(Total: 27 Marks)

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